

March 7, 2018

Dear Shareholders,

**Matters Disclosed on the Internet  
Related to the  
Notice of Convocation of  
the 19th Ordinary General Meeting of Shareholders**

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| In accordance with the laws and regulations and Article 14 Articles of Incorporation of the Company, matters above are deemed to be provided to the shareholders by being available on the Company's website ( <a href="http://www.sumcosi.com">http://www.sumcosi.com</a> ). |
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**SUMCO CORPORATION**

## **Matters Relating to the Formulation of a System to Ensure Appropriate Corporate Actions**

### **(1) System to ensure compliance with laws and regulations and the Articles of Incorporation of the Company by Directors and employees when executing their duties**

- 1) The Company shall enact the “SUMCO CHARTER” as the supreme code of conduct for officers and employees to ensure that their duties comply with laws and regulations, and the Articles of Incorporation of the Company and fulfill their social responsibility. The Company shall also educate officers and employees to familiarize them with the “SUMCO CHARTER.”
- 2) The Chief Compliance Officer shall be assigned as the supreme officer responsible for supervising compliance with the “SUMCO CHARTER.” Each General Manager who is the head of an organization in the Company shall supervise compliance in his or her organization and submit regular reports on compliance with the CHARTER to the Chief Compliance Officer.
- 3) The Company shall establish an internal hotline for reporting violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities.
- 4) The Internal Auditing Department shall perform periodic audits to verify compliance in each department.
- 5) The Company shall further disseminate to its officers and employees the understanding of not having any connections with antisocial forces and refusing their improper solicitations as clearly stated in the “SUMCO CHARTER.”

### **(2) System for the preservation and management of information regarding the execution of duties by Directors**

The Company shall appropriately preserve and manage information regarding the execution of duties by Directors, in accordance with laws and regulations, the Articles of Incorporation and internal regulations under a system that enables the access to and duplication of the said information by Directors, Accounting Auditors, etc.

### **(3) Regulations and other systems for managing the risk of loss**

- 1) The Company shall establish the “Risk Management Basic Rules” that stipulate basic issues on risk management, and based on them, the Company shall set up an information distribution route to be used upon occurrence of major risks and develop a system for installing Emergency Headquarters.
- 2) The Company shall establish a “Business Security Committee (BSC)” that supervises overall risk management, to formulate a cross-sectional risk management policy and confirm the progress in addressing risks.
- 3) The Company shall establish internal regulations to appropriately manage individual risks related to information leakage, financial markets and product quality based on the Risk Management Basic Rules.

### **(4) System to ensure the effective execution of duties by Directors**

- 1) The Company shall employ the executive officer system under which management decision-making and supervisory functions are separated from executive functions. Under the system a

Board of Directors shall carry out decision-making on important matters such as management policy and monitor the execution of duties by Directors as well as the performance of duties by executive officers, while the executive officers shall perform their duties delegated by a Board of Directors.

- 2) Important matters relating to management shall be deliberated at Management Conferences whose members shall consist of individuals holding the position of managing executive officer or higher.
  - 3) The Company shall stipulate and clarify the criteria for submitting proposals to a Board of Directors and stipulate the authority of executive officers in internal regulations clarifying the responsibilities and authority of them.
  - 4) A Board of Directors shall formulate management strategies and management plans and the executive officers shall execute duties aimed at achieving the objectives set forth in them. Directors also serving as executive officers shall periodically report on their duties to a Board of Directors.
- (5) System to ensure proper business practices by the corporate group comprised of the Company, its parent company, and its subsidiaries**
- 1) By making every subsidiary of the Company establish its own CHARTER as the supreme code of conduct equivalent to the “SUMCO CHARTER,” compliance in each subsidiary as a member of the corporate group shall be established. Respective subsidiaries are requested to periodically report on their compliance with their CHARTERS.
  - 2) The Company shall assign a department to manage subsidiaries and clarify subsidiary management standards in internal regulations in an effort to improve the soundness and effectiveness of management both in each of them and in the SUMCO Group as a whole. In addition, respective subsidiaries are requested to report on violations of laws and regulations and Articles of Incorporation or a probability of such violations, or matters that can cause serious losses to them, besides the performance, financial conditions and other important management information, etc.
  - 3) Respective subsidiaries are requested to formulate basic policies related to risk management and promote their response to risks. They are requested to report on the state of the implementation of risk management at the “Business Security Committee (BSC).” In addition, respective subsidiaries are requested to establish a communication route in case that a serious risk occurs.
  - 4) The Company shall establish an internal hotline which is independent from the executive office of the Company to allow employees of the subsidiaries to directly report violations or alleged violations of laws and regulations or the Articles of Incorporation as well as suspicious activities, etc.
  - 5) The Internal Auditing Department shall perform periodic internal audits of the subsidiaries.
- (6) Matters regarding employees requested by an Audit and Supervisory Committee to assist their duties, matters regarding the independence of those employees from other Directors (excluding Directors who are Audit and Supervisory Committee Members) of the Company, and matters relating to ensuring the effectiveness of instructions of an Audit and Supervisory Committee to such employees**
- 1) The Company shall establish an Audit and Supervisory Committee Office and deploy staff as

employees assisting the Audit and Supervisory Committee in their duties.

- 2) In order to ensure the independence of the staff for an Audit and Supervisory Committee Office, prior approval of the Audit and Supervisory Committee shall be required for personnel changes, and performance appraisals shall be conducted by full-time Audit and Supervisory Committee Members.
- 3) The staff for an Audit and Supervisory Committee Office shall follow only the instructions of Audit and Supervisory Committee Members and the Audit and Supervisory Committee when executing their duties.

**(7) System for reporting to an Audit and Supervisory Committee**

- 1) Directors (excluding Directors who are Audit and Supervisory Committee Members) shall stipulate in internal regulations matters to be reported to an Audit and Supervisory Committee, such as matters that significantly affect the management and results of the Company, and do so appropriately.
  - 2) Subsidiaries shall establish a system for reporting in which Directors or employees of subsidiaries report to the department responsible for the management of subsidiaries and an Audit and Supervisory Committee of the Company in case that a violation of laws and regulations and Articles of Incorporation or a probability of such a violation, or a matter that can cause a serious loss to subsidiaries occurs in subsidiaries. In addition, the department responsible for the management of subsidiaries that received reports from Directors or employees of the subsidiary shall report to an Audit and Supervisory Committee.
  - 3) Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries may report to an Audit and Supervisory Committee of the Company, if they recognize the necessity.
  - 4) An Audit and Supervisory Committee of the Company may directly request reports from Directors (excluding Directors who are Audit and Supervisory Committee Members) and employees of the Company, and Directors, Corporate Auditors and employees of subsidiaries, if it recognizes the necessity.
  - 5) The Company shall clearly stipulate in the regulations, etc., that employees will not be subject to disadvantageous treatment for their reporting to an Audit and Supervisory Committee.
- (8) Matters relating to the procedure for advance payment or redemption of the cost incurred by the execution of duties by Audit and Supervisory Committee Members (limited to that regarding the execution of duties by an Audit and Supervisory Committee), and other policies for treating the costs or liabilities incurred by the execution of the said duties**
- When Audit and Supervisory Committee Members claim the advance payment of the costs incurred by the execution of their duties or its redemption and others (limited to that regarding the execution of duties by an Audit and Supervisory Committee), the Company shall respond to the said claim without delay.

**(9) Other systems for ensuring effective audits by an Audit and Supervisory Committee**

- 1) The Audit and Supervisory Committee shall exchange opinions with CEO & Chairman of the Board and COO & President periodically or whenever necessary.

- 2) The Company shall proactively create opportunities for Audit and Supervisory Committee Members to attend the Management Conference and other important meetings.

### **Overview of the State of the Operations of a System to Ensure Appropriate Corporate Actions**

The outline of the state of the operations of a system to ensure appropriate corporate actions executed during the consolidated fiscal year under review is as below.

- 1) During the consolidated fiscal year under review, meetings of the Board of Directors were held 16 times, in which the Board determined matters stipulated by laws and regulations and other important matters regarding management including the formulation of the budget. Directors who serve as executive officers concurrently reported on the state of execution of their duties regularly.
- 2) During the consolidated fiscal year under review, meetings of the Audit and Supervisory Committee were held 13 times to discuss and determine audit policies and audit plans. Full-time Audit and Supervisory Committee Members reported on the state of execution of duties and compliance with laws and regulations by Directors (excluding Directors who are Audit and Supervisory Committee Members), which they understood through attending important internal meetings and auditing the state of duties and properties.
- 3) The Nomination and Compensation Committee (composed of two Representative Directors [Mayuki Hashimoto, Director and Michiharu Takii, Director] and two Independent Outside Directors [Hitoshi Tanaka, Director and Masahiro Mitomi, Director]), which was established as a discretionary advisory body to the Board of Directors, deliberated on personnel affairs and remuneration and other payments to officers, and reported the results of the meetings to the Board of Directors.
- 4) With regard to the “SUMCO CHARTER,” which was established as the supreme code of conduct to ensure that the execution of duties by officers and employees complies with laws and regulations and Articles of Incorporation and fulfills social responsibilities, the Company educated the domestic and overseas subsidiaries as well as the Company itself to familiarize them with the CHARTER, and confirmed the state of compliance in the corporate group as a whole during the consolidated fiscal year under review.
- 5) The progress of risk management in the Company and subsidiaries was confirmed in the “Business Security Committee (BSC)” that supervises all risk management.
- 6) In order to confirm the initial response system and the communication system in case of a large-scale disaster such as an earthquake, simulation trainings were held at each base based on the respective disaster response manuals.

## Consolidated Statement of Changes in Equity

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Capital stock        | Capital Surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period   | 138,718              | 23,384          | 50,691            | (11)           | 212,783                    |
| Changes during period  |                      |                 |                   |                |                            |
| Dividends from surplus   |                      |                 | (4,399)           |                | (4,399)                    |
| Net income attributable to owners of the Parent  |                      |                 | 27,016            |                | 27,016                     |
| Reversal of revaluation reserve for land   |                      |                 | 1                 |                | 1                          |
| Purchase of treasury stock   |                      |                 |                   | (0)            | (0)                        |
| Change in ownership interest of parent due to transactions with non-controlling shareholders |                      | 3,585           |                   |                | 3,585                      |
| Other  |                      | 0               |                   |                | 0                          |
| Net changes of items other than shareholders' equity   |                      |                 |                   |                |                            |
| Total changes during period  | —                    | 3,585           | 22,618            | (0)            | 26,202                     |
| Balance at end of period   | 138,718              | 26,969          | 73,309            | (12)           | 238,986                    |

|  | Accumulated other comprehensive income               |   |                          |  |   |  | Non-controlling interests | Total equity |
|--|--|---|--------------------------|--|---|--|---------------------------|--------------|
|  | Net unrealized gain on available-for-sale securities | Deferred loss on derivatives under hedge accounting | Land revaluation surplus | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                           |              |
| Balance at beginning of period   | 0  | (2,484)   | 2,886                    | 236                                      | (3,593)                                 | (2,954)                                      | 33,007                    | 242,836      |
| Changes during period  |  |   |                          |  |   |  |                           |              |
| Dividends from surplus   |  |   |                          |  |   |  |                           | (4,399)      |
| Net income attributable to owners of the Parent  |  |   |                          |  |   |  |                           | 27,016       |
| Reversal of revaluation reserve for land   |  |   | (1)                      |  |   | (1)  |                           | —            |
| Purchase of treasury stock   |  |   |                          |  |   |  |                           | (0)          |
| Change in ownership interest of parent due to transactions with non-controlling shareholders |  |   |                          |  |   |  |                           | 3,585        |
| Other  |  |   |                          |  |   |  |                           | 0            |
| Net changes of items other than shareholders' equity   | 0  | 2,482   |                          | 852                                      | 1,862                                   | 5,197  | 7,387                     | 12,585       |
| Total changes during period  | 0  | 2,482   | (1)                      | 852                                      | 1,862                                   | 5,196  | 7,387                     | 38,787       |
| Balance at end of period   | 0  | (1)   | 2,885                    | 1,089                                    | (1,731)                                 | 2,242  | 40,394                    | 281,623      |

## Notes on Consolidated Financial Statements

### I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc.

#### 1. Scope of consolidation

##### (1) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries: 16

Names of major consolidated subsidiaries:

SUMCO TECHXIV CORPORATION

SUMCO Phoenix Corporation

FORMOSA SUMCO TECHNOLOGY CORPORATION

##### (2) Number and names of non-consolidated subsidiaries

Number of non-consolidated subsidiaries: 4

Name of major non-consolidated subsidiary:

SUMCO Korea Corporation

[Reason for exclusion from the scope of consolidation]

All of these non-consolidated subsidiaries are exempt, as they are small in scale and none of the total of their total assets, net sales, net income (loss) (appropriate amount corresponding to equity ownership) and retained earnings (appropriate amount corresponding to equity ownership) significantly affect the consolidated financial statements.

#### 2. Application of the equity method

##### (1) Number and names of non-consolidated subsidiaries and affiliates to which the equity method is applied

We do not have any non-consolidated subsidiary or affiliate to which the equity method is applied.

##### (2) Names of non-consolidated subsidiaries and affiliates to which the equity method is not applied

Name of major non-consolidated subsidiary or affiliate:

SUMCO Korea Corporation

[Reason for non-application of the equity method]

The number of non-consolidated subsidiaries and affiliates to which the equity method is not applied is 4. All 4 companies are exempt from application of the equity method as their influences on net income (appropriate amount corresponding to equity ownership) and retained earnings (appropriate amount corresponding to equity ownership) are minor, and basically insignificant as a whole.

#### 3. Consolidated subsidiaries' business year-end, etc.

The business year of all the consolidated subsidiaries coincides with the Group's consolidated fiscal year.

#### **4. Summary of significant accounting policies**

##### **(1) Standards for and method of evaluation of major assets**

###### **(a) Marketable securities**

Available-for-sale securities

Securities with market value:

We employ the market value method (using the “net assets” method of accounting for valuation differences, and working out the cost by the “moving average cost” method) based on the market price at the balance sheet date, etc.

Securities without market value:

We mainly employ the cost method based on the “moving average cost” method.

###### **(b) Derivatives**

We employ the market value method.

###### **(c) Inventories**

We mainly employ the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

##### **(2) Method of depreciation of major depreciable assets**

###### **(a) Property, plant and equipment (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)**

We mainly employ the straight-line method for buildings and structures, and the constant percentage method for other property, plant and equipment; however, we mainly employ the constant percentage method for structures which were acquired before March 31, 2016.

Service life for buildings and structures is mainly set at 31 years and service life for machinery and transport equipment is mainly set at 5 years.

###### **(b) Intangible assets (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)**

As for software, we employ the straight-line method based on the usable period (5 years) set within the Company.

###### **(c) Lease assets (lease assets pertaining to non-ownership-transfer finance lease transactions)**

We employ the straight-line method in which the lease period is used as the service life and residual value of the relevant asset falls to zero at the end of the service life.

##### **(3) Standard for provision of major allowances**

###### **(a) Allowance for doubtful accounts**

In anticipation of potential losses from bad debts, the estimated irrecoverable amount is provided in accordance with the loan loss ratio for general credits and through the individual examination of recoverability for particular credits such as claims to obligors with high possibility of business failure.

###### **(b) Reserve for bonuses**

Reserve for bonuses is provided for payment of bonuses to employees in the amount of estimated bonuses, which is attributable to the current fiscal year.

#### **(4) Other important matters for the preparation of consolidated financial statements**

##### **(a) Accounting method for retirement benefits**

As net defined benefit liability, the difference between retirement benefit obligations and plan assets is recorded based on the estimated amounts as of the end of the consolidated fiscal year under review to provide for payment of retirement benefits to employees. If the amount of plan assets exceeds retirement benefit obligations, the difference is recorded as net defined benefit asset.

In the calculation of retirement benefit obligations, the benefit formula basis is principally used to attribute the estimated amount of retirement benefits to the period up to the end of the consolidated fiscal year under review.

Past service cost is mainly amortized from the time of accrual using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence.

Actuarial difference is mainly amortized using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence, commencing from the next fiscal year of incurrence.

Unrecognized actuarial difference and unrecognized past service cost are recorded as remeasurements of defined benefit plans under accumulated other comprehensive income in equity section after adjusting for tax effects.

##### **(b) Standards for translation of major foreign currency-denominated assets and liabilities into Japanese yen**

Values of foreign currency-denominated receivables and payables are translated into Japanese yen at the spot rates of foreign exchange markets on the closing dates of accounting for the respective companies, and translation differences are charged to income. Values of assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot rates of foreign exchange markets on the closing dates of accounting for the respective companies; revenues and expenses are converted to Japanese yen at the average market rates during the periods. Translation differences are inclusively posted in the foreign currency translation adjustments account and non-controlling interests in the equity section.

##### **(c) Major hedge accounting**

###### **(Method of hedge accounting)**

Deferred hedge processing is performed. Special processing is adopted for interest rate swaps that satisfy the requirements for special processing.

###### **(Hedging instrument and hedged item)**

Interest rate swaps are used to avert a risk of fluctuations in market interest rates for borrowed funds and currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

###### **(Hedging policy)**

Mainly based on our own risk management policy, we hedge against a risk of fluctuations in market interest rates and a risk of currency fluctuations. As for a risk of fluctuations in market interest rates, we maintain the ratio of borrowings with fixed interest rates to total borrowings above a certain level. Also, as for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

###### **(Method of assessment of effectiveness of hedges)**

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions. However, the effectiveness assessment process is curtailed when important conditions such as the principal, interest rate, period and currency are identical in the hedging instrument and the hedged item as, in such a case, it is obvious that the particular hedge is highly effective.

##### **(d) Method and period for amortization of goodwill**

Goodwill is evenly amortized over a period of between 15 and 20 years.

**(e) Accounting for consumption taxes**

The tax exclusion method is adopted for accounting for consumption taxes and local consumption taxes.

**5. Changes to presentations**

Since the materiality of the items that had been presented separately as “Subsidy income” under non-operating income on the consolidated statement of income for the previous consolidated fiscal year decreased in the consolidated fiscal year under review, they are now included in “Other.”

Please note that “Subsidy income” included in “Other” in the consolidated fiscal year under review is 15 million yen.

**6. Additional information**

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) effective from the fiscal year under review.

**II. Notes to Consolidated Balance Sheet**

**1. Accumulated depreciation of property, plant and equipment**

833, 296 million yen

**2. Guarantee obligation**

Guarantee for employee borrowings from financial institution

322 million yen

**3. Land revaluation**

We carried out a revaluation of the land owned by the merged company for business use based on the Land Revaluation Law (Law No. 34 of March 31, 1998) and posted the tax equivalent amount on the relevant revaluation difference to the liabilities section as “Deferred income tax liabilities on revaluation reserve for land,” and at the same time posted the amount with the tax equivalent portion deducted to the net assets section as “Land revaluation surplus.”

Method of revaluation

A revaluation was carried out with a reasonable adjustment made for the assessed value of non-current assets as stipulated in Article 2, Item 3 of the Enforcement Order for the Land Revaluation Law (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation:

March 31, 2000

Difference between market value of land at end of year of revaluation and book value after revaluation:

(3,663) million yen

#### 4. Long- and short-term borrowings

- (1) The Company has borrowings from financial institutions that are subject to financial covenants. These covenants require that the net assets on the Company's consolidated and non-consolidated balance sheet, as well as the cash flows from operating activities on the Company's consolidated statements of cash flows, be maintained at certain levels.

The amount borrowed as of the end of the consolidated fiscal year under review is as follows.

|  |                     |
|--|---------------------|
| Long-term debt                                 | 5,300 million yen   |
| (Repayment of above scheduled within one year) | (5,300 million yen) |

- (2) In order to obtain flexible financing for operating funds, the Company has entered into a commitment line agreement with financial institutions. Financial covenants are attached to the agreement that require net assets in the Company's consolidated and non-consolidated balance sheet and the cash flows from operating activities in the Company's consolidated statement of cash flows to be maintained at certain levels.

The unexecuted loan commitment associated with the commitment line agreement as of December 31, 2017 is as follows.

|                            |                    |
|----------------------------|--------------------|
| Total loan commitment      | 67,075 million yen |
| Used commitment            | – million yen      |
| <hr/>                      |                    |
| Unexecuted loan commitment | 67,075 million yen |

#### 5. Others

In order for the Company and some of its consolidated subsidiaries to secure polycrystalline silicon, which is the main raw material of silicon wafers, they entered into long-term purchase contracts with polycrystalline silicon producers. In accordance with the contracts, the Company and some of its consolidated subsidiaries have made advance payments to some of the producers.

### III. Notes to Consolidated Statement of Changes in Equity

#### 1. Class and total number of issued shares and class and total number of shares of treasury stock

(Shares)

|                      | Number of shares<br>as of the beginning of<br>the consolidated<br>fiscal year<br>under review | Increase during<br>the consolidated<br>fiscal year<br>under review | Decrease during<br>the consolidated<br>fiscal year<br>under review | Number of shares<br>as of the end of the<br>consolidated fiscal<br>year under review |
|----------------------|---|--|--|--|
| Issued shares        |   |  |  |  |
| Common shares        | 293,285,539   | —  | —  | 293,285,539  |
| Total                | 293,285,539   | —  | —  | 293,285,539  |
| Treasury stock       |   |  |  |  |
| Common shares (Note) | 7,046   | 344  | —  | 7,390  |
| Total                | 7,046   | 344  | —  | 7,390  |

(Note) The 344-share increase in the number of shares of common treasury stock is due to the purchase of shares less than one unit.

## 2. Particulars concerning dividends from surplus

### (1) Dividends paid

| Resolution                                      | Class of shares | Total amount of dividends (millions of yen) | Dividend per share (yen) | Record date       | Effective date     |
|---|-----------------|---|--------------------------|-------------------|--------------------|
| Board of Directors Meeting on February 22, 2017 | Common shares   | 1,466                                       | 5.00                     | December 31, 2016 | March 9, 2017      |
| Board of Directors Meeting on August 8, 2017    | Common shares   | 2,932                                       | 10.00                    | June 30, 2017     | September 28, 2017 |

### (2) Dividends with the record date in the consolidated fiscal year under review, and effectiveness of which falls in the next consolidated fiscal year

The following proposal will be submitted to the Board of Directors Meeting scheduled for February 20, 2018.

| Resolution expected                             | Dividend resource | Class of shares | Total amount of dividends (millions of yen) | Dividend per share (Yen) | Record date       | Effective date |
|---|-------------------|-----------------|---|--------------------------|-------------------|----------------|
| Board of Directors Meeting on February 20, 2018 | Retained earnings | Common shares   | 5,279                                       | 18.00                    | December 31, 2017 | March 8, 2018  |

## **IV. Notes Regarding Financial Instruments**

### **1. Status of financial instruments**

#### **(1) Policy for measures relating to financial instruments**

The Group limits the fund investments to short-term deposits at financial institutions or the like. It raises funds through borrowings from banks, in particular. It uses derivatives to avert the below-mentioned risk and does not conduct speculative transactions.

#### **(2) Detail of financial instruments and associated risk and risk management system**

Notes and accounts receivable are exposed to customer credit risk. For such risk, the Group has systems enabling the management of due dates and balances of each trading partner as well as the constant monitoring of operating status thereof. Such accounts denominated in foreign currencies are exposed to currency fluctuation risk. In order to mitigate such risk, we use currency forward contracts as a hedging instrument. Marketable securities consist of negotiable certificates of deposit with maturities of within three months that are readily convertible into cash and have an immaterial risk of price fluctuation. Investment securities are primarily the shares in companies with which we have business relationships, and are exposed to market price fluctuation risk. We consistently review the holding status of such shares taking into account the market condition and the relationships with each trading partner.

Basically, notes and accounts payable and accrued income taxes, as well as notes and accounts payable – construction, have due dates arriving within six months. Borrowings with floating interest rates are exposed to interest rate fluctuation risk in accordance with the future interest rate hike in the interest rate market. In order to avert such risk and fix interest expenses, we use interest rate swaps for each of a portion of long-term borrowings as a hedging instrument.

The execution and management of derivative transactions are conducted by the department responsible for financing upon approval of approval authority, pursuant to the internal rules governing authority and maximum amounts of such transactions. In order to mitigate relevant credit risk, counterparties of derivative transactions are limited to financial institutions with high credit ratings. The outline of hedge accounting is as shown in “4. Summary of significant accounting policies, (4) Other important matters for the preparation of consolidated financial statements, (c) Major hedge accounting” under “I. Notes on Basic Matters of Importance for Preparing Consolidated Financial Statements, etc.”

We manage liquidity risk in association with financing (risk of failure to execute payment on due date) by means of preparing financial plans every month or by other means.

#### **(3) Supplementary explanation about fair values of financial instruments**

The fair values of financial instruments include values based on market prices, or, if there are no market prices, they include reasonably estimated values. Because estimations of such values incorporate changeable factors, applying different assumptions can in some cases change such values. The contracted amounts of derivatives referred to in “2. Fair values of financial instruments” below should not be in themselves considered indicative of the volume of market risk associated with the derivative transactions.

## 2. Fair values of financial instruments

Amounts on consolidated balance sheet and fair values as of December 31, 2017 and the differences between them are as follows.

Items whose fair value is deemed to be extremely difficult to determine are not included in the following table (Please refer to Note 2.).

(Millions of yen)

|   | Consolidated<br>balance sheet<br>amount | Fair value | Difference |
|---|---|------------|------------|
| (1) Cash and time deposits                          | 55,040                                  | 55,040     | —          |
| (2) Notes and accounts receivable – trade           | 52,858                                  | 52,858     | —          |
| (3) Marketable securities and investment securities | 19,601                                  | 19,601     | —          |
| Total assets  | 127,500                                 | 127,500    | —          |
| (1) Notes and accounts payable – trade              | 26,321                                  | 26,321     | —          |
| (2) Short-term borrowings (*1)                      | —                                       | —          | —          |
| (3) Accrued income taxes                            | 4,273                                   | 4,273      | —          |
| (4) Notes and accounts payable – construction       | 10,586                                  | 10,586     | —          |
| (5) Long-term debt (*1)                             | 166,437                                 | 167,054    | 617        |
| (6) Lease obligations                               | 2,958                                   | 2,950      | (7)        |
| Total liabilities                                   | 210,576                                 | 211,186    | 609        |
| Derivative transactions (*2)                        |   |            |            |
| (i) Those to which hedge accounting is not applied  | (155)                                   | (155)      | —          |
| (ii) Those to which hedge accounting is applied     | (1)                                     | (1)        | —          |
| Total derivative transactions                       | (157)                                   | (157)      | —          |

(\*1) Current portion of long-term debt is not included in (2) Short-term borrowings, but included in (5) Long-term debt.

(\*2) Receivables and payables arising out of derivative transactions are shown on the net basis. The items that are net debt in total are shown in parentheses.

(Notes) 1. Measurement of fair values of financial instruments

### Assets

(1) Cash and time deposits, and (2) Notes and accounts receivable – trade

Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

(3) Marketable securities and investment securities

Marketable securities consist of negotiable certificates of deposit. Because their settlement periods are short and their fair values are almost the same as their book values, the relevant book values are used. Investment securities consist of stocks. Their fair values are based on the prices on stock exchanges.

### Liabilities

(1) Notes and accounts payable – trade, (2) Short-term borrowings, (3) Accrued income taxes and (4) Notes and accounts payable – construction

Because the settlement periods of the above items are short and their fair values are almost the same as their book values, the relevant book values are used.

(5) Long-term debt, and (6) Lease obligations

The fair values of these items are measured based on the present value of future cash flows of the total of principal and interest for the residual period, discounted at an interest rate that would be charged for a new similar borrowing or lease.

#### Derivative transactions

Currency forward contracts are used for currency-related transactions and interest rate swaps are used for interest rate-related transactions.

The fair value of derivatives is based on the assessed value presented to the Company by counterparty financial institutions. Because interest rate swaps that are accounted for by special processing are incorporated, when accounting, with long-term debt that are the hedged items, the fair value of such items is included in the fair value of such long-term debt.

2. Because unlisted stocks, etc. (amount on consolidated balance sheet: 80 million yen) have no market prices and their fair values are deemed to be extremely difficult to determine, the amount is not included in “Assets (3) Marketable securities and investment securities.”

#### **V. ‘Per Share’ Information**

1. Net assets per share: 822.53 yen
2. Net income per share: 92.12 yen

(Note) The calculation basis of net income per share is as follows.

|   |             |
|---|-------------|
| Net income attributable to owners of the Parent<br>(millions of yen)      | 27,016      |
| Average number of common shares outstanding<br>during the period (shares) | 293,278,342 |

#### **VI. Other Notes**

(Deferred Tax accounting)

Adjustment to the amounts of deferred tax assets at a consolidated subsidiary in the United States following a revision to the corporate income tax rate.

The income tax law in the United States was revised on December 22, 2017 and the federal income tax rate was reduced to 21% as of January 2018.

As a result of this revision, the amounts of deferred tax assets in the consolidated financial statements for the fiscal year ended December 31, 2017 decreased by 2,190 million yen and income taxes – deferred decreased by 2,175 million yen.

Adjustment to the amounts of deferred tax assets and deferred tax liabilities at a consolidated subsidiary in Taiwan following a revision to the corporate income tax rate.

The income tax law in Taiwan was revised on January 18, 2018 and the corporate income tax rate was raised to 20% as of January 2018.

As a result of this revision, the amounts of deferred tax assets in the consolidated financial statements for the fiscal year ending December 31, 2018 will increase by 332 million yen and the amounts of deferred tax liabilities will increase by 28 million yen.

(Business combinations)

Transactions under common control

SUMCO TECHXIV CORPORATION, a consolidated subsidiary of the Company, sold a portion of its shareholding in FORMOSA SUMCO TECHNOLOGY CORPORATION, which is also a consolidated subsidiary of the Company.

##### 1. Outline of the transaction

###### (1) Name and business description of the subsidiary

Name of the subsidiary: FORMOSA SUMCO TECHNOLOGY CORPORATION

Business description: Manufacture and sales of silicon wafers for semiconductor

###### (2) Date of share transfer

From May 17, 2017 to October 2, 2017 (for a period of 39 days)

(3) Legal form of business combination

Partial sale of subsidiary shares to non-controlling shareholders without change in scope of consolidation

(4) Outline of transaction including purpose of transaction

The purpose is to improve the liquidity of the said shares on the Taiwan Stock Exchange.

2. Outline of accounting treatment

Accounting treatment is in accordance with transactions under common control based on the “Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

3. Matters pertaining to changes in ownership interest of the Company related to transactions with non-controlling shareholders

(1) Main cause of change in capital surplus

Partial sale of subsidiary shares without change in scope of consolidation

(2) Amount of capital surplus increased as a result of transactions with non-controlling shareholders

3,585 million yen

## Non-consolidated Statement of Changes in Equity

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

|  | Shareholders' equity |                 |        |                       |                           |  |                         |                |                            |
|--|----------------------|-----------------|--------|-----------------------|---------------------------|--|-------------------------|----------------|----------------------------|
|  | Capital stock        | Capital surplus |        |                       | Retained earnings         |  |                         | Treasury stock | Total shareholders' equity |
|  |                      | Capital reserve | Other  | Total capital surplus | Retained earnings reserve | Other retained earnings<br>Retained earnings carried forward | Total retained earnings |                |                            |
| Balance at beginning of period                       | 138,718              | 3,611           | 19,772 | 23,384                | 1,241                     | 22,273   | 23,515                  | (11)           | 185,607                    |
| Changes during period                                |                      |                 |        |                       |                           |  |                         |                |                            |
| Accumulation of retained earnings reserve            |                      |                 |        |                       | 439                       | (439)  | -                       |                | -                          |
| Dividends from surplus                               |                      |                 |        |                       |                           | (4,399)  | (4,399)                 |                | (4,399)                    |
| Net income   |                      |                 |        |                       |                           | 19,147   | 19,147                  |                | 19,147                     |
| Reversal of revaluation reserve for land             |                      |                 |        |                       |                           | 1  | 1                       |                | 1                          |
| Purchase of treasury stock                           |                      |                 |        |                       |                           |  |                         | (0)            | (0)                        |
| Net changes of items other than shareholders' equity |                      |                 |        |                       |                           |  |                         |                |                            |
| Total changes during period                          | -                    | -               | -      | -                     | 439                       | 14,309   | 14,749                  | (0)            | 14,748                     |
| Balance at end of period                             | 138,718              | 3,611           | 19,772 | 23,384                | 1,681                     | 36,583   | 38,264                  | (12)           | 200,356                    |

|  | Variance of valuation/translation, etc.             |                          |   | Total equity |
|--|---|--------------------------|---|--------------|
|  | Deferred loss on derivatives under hedge accounting | Land revaluation surplus | Total variance of valuation/translation, etc. |              |
| Balance at beginning of period                       | (2,484)   | 2,886                    | 402   | 186,010      |
| Changes during period                                |   |                          |   |              |
| Accumulation of retained earnings reserve            |   |                          |   | -            |
| Dividends from surplus                               |   |                          |   | (4,399)      |
| Net income   |   |                          |   | 19,147       |
| Reversal of revaluation reserve for land             |   | (1)                      | (1)   | -            |
| Purchase of treasury stock                           |   |                          |   | (0)          |
| Net changes of items other than shareholders' equity | 2,482   |                          | 2,482   | 2,482        |
| Total changes during period                          | 2,482   | (1)                      | 2,481   | 17,230       |
| Balance at end of period                             | (1)   | 2,885                    | 2,884   | 203,240      |

## Notes on Non-Consolidated Financial Statements

### I. Notes on Major Accounting Policies

#### 1. Standards for and method of evaluation of assets

##### (1) Marketable securities

###### (a) Stocks of subsidiaries and affiliates

We employ the cost method based on the “moving average cost” method.

###### (b) Available-for-sale securities

Securities with market value:

We employ the market value method (using the “net assets” method of accounting for valuation differences, and working out the cost by the “moving average cost” method) based on the market price at the balance sheet date, etc.

Securities without market value:

We employ the cost method based on the “moving average cost” method.

##### (2) Derivatives

We employ the market value method.

##### (3) Inventories

We employ the cost method based on the periodic average method. (Balance sheet values are calculated using the devaluating book value method based on decreases in profitability.)

#### 2. Method of depreciation of non-current assets

##### (1) Property, plant and equipment (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

We employ the straight-line method for buildings and structures, and the constant percentage method for other property, plant and equipment; however, we employ the constant percentage method for structures which were acquired before March 31, 2016.

Service life for buildings is mainly set at 31 years and service life for other property, plant and equipment is mainly set at 5 years.

##### (2) Intangible assets (excluding lease assets pertaining to non-ownership-transfer finance lease transactions)

Software

We employ the straight-line method based on the usable period (5 years) set within the Company.

Other intangible assets

We employ the straight-line method.

##### (3) Lease assets (lease assets pertaining to non-ownership-transfer finance lease transactions)

We employ the straight-line method in which the lease period is used as the service life and residual value of the relevant asset falls to zero at the end of the service life.

#### 3. Standard for provision of allowances

##### (1) Allowance for doubtful accounts

In anticipation of potential losses from bad debts, the estimated irrecoverable amount is provided in accordance with the loan loss ratio for general credits and through the individual examination of recoverability for particular credits such as claims to obligors with high possibility of business failure.

**(2) Reserve for bonuses**

Reserve for bonuses is provided for payment of bonuses to employees in the amount of estimated bonuses, which is attributable to the current business year.

**(3) Liability for retirement benefits**

Liability for retirement benefits is provided for payment of retirement benefits to employees in the amount deemed accrued at the current business year-end, based on the projected retirement benefit obligation and the fair value of plan assets at the current business year-end. Fair value of plan assets is recorded as prepaid pension cost in the balance sheet in the current business year as it exceeds the amount to/from which unrecognized actuarial gains/losses are added/subtracted in retirement benefit obligation.

Past service cost is amortized from the time of accrual using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence.

Actuarial difference is amortized using the straight-line method over a fixed number of years (10 years) within the employee's average remaining service period at incurrence, commencing from the next business year of incurrence.

**4. Other important matters for the preparation of non-consolidated financial statements**

**(1) Hedge accounting**

**(Method of hedge accounting)**

Deferred hedge processing is performed. Special processing is adopted for interest rate swaps that satisfy the requirements for special processing.

**(Hedging instrument and hedged item)**

Interest rate swaps are used to avert a risk of fluctuations in market interest rates for borrowed funds and currency forward contracts are used to avert a risk of currency fluctuations associated with anticipated transactions denominated in foreign currencies.

**(Hedging policy)**

Based on our own risk management policy, we hedge against a risk of fluctuations in market interest rates and a risk of currency fluctuations. As for a risk of fluctuations in market interest rates, we maintain the ratio of borrowings with fixed interest rates to total borrowings above a certain level. Also, as for a risk of currency fluctuations, we arrange currency forward contracts within the scope of anticipated sales.

**(Method of assessment of effectiveness of hedges)**

In terms of hedging instruments and hedged items, we verify the effectiveness of the hedges based on individual transactions. However, the effectiveness assessment process is curtailed when important conditions such as the principal, interest rate, period and currency are identical in the hedging instrument and the hedged item as, in such a case, it is obvious that the particular hedge is highly effective.

**(2) Accounting for retirement benefits**

The accounting method for the remaining amounts of unrecognized actuarial difference and unrecognized past service cost in relation to retirement benefits is different from the accounting method for those amounts in the consolidated financial statements.

**(3) Accounting for consumption taxes**

The tax exclusion method is adopted for accounting for consumption taxes and local consumption taxes.

## **5. Changes to presentations**

- (1) Since the materiality of “Accrued income taxes,” which had been included in “Other” under current liability on the non-consolidated balance sheet for the previous business year, increased in the business year under review, it is now presented separately.

Please note that “Accrued income taxes” included in “Other” in the previous business year is 323 million yen.

- (2) Since the materiality of “Royalty income,” which had been included in “Other” under non-operating income on the non-consolidated statement of income for the previous business year increased in the business year under review, it is now presented separately.

Please note that “Royalty income” included in “Other” in the business year under review is 71 million yen.

## **6. Additional information**

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) effective from the fiscal year under review.

## II. Notes to Non-consolidated Balance Sheet

### 1. Accumulated depreciation of property, plant and equipment

486,196 million yen

### 2. Guarantee obligation

Guarantee for employee borrowings from  
financial institution 322 million yen

### 3. Accounts receivable from and payable to subsidiaries and affiliates

Short-term accounts receivable 29,305 million yen  
Long-term accounts receivable 28,730 million yen  
Short-term accounts payable 44,077 million yen

### 4. Land revaluation

We carried out a revaluation of the land owned by the merged company for business use based on the Land Revaluation Law (Law No. 34 of March 31, 1998) and posted the tax equivalent amount on the relevant revaluation difference to the liabilities section as “Deferred income tax liabilities revaluation reserve for land,” and at the same time posted the amount with the tax equivalent portion deducted to the net assets section as “Land revaluation surplus.”

Method of revaluation:

A revaluation was carried out with a reasonable adjustment made for the assessed value of non-current assets as stipulated in Article 2, Item 3 of the Enforcement Order for the Land Revaluation Law (Cabinet Order No. 119 of March 31, 1998).

Date of revaluation: March 31, 2000

Difference between market value of land at end of year of revaluation and book value after revaluation: (3,663) million yen

### 5. Long- and short-term borrowings

- (1) The Company has borrowings from financial institutions that are subject to financial covenants. These covenants require that the net assets on the Company’s consolidated and non-consolidated balance sheet, as well as the cash flows from operating activities on the Company’s consolidated statements of cash flows, be maintained at certain levels.

The amount borrowed as of the end of the business year under review is as follows.

Long-term debt 5,300 million yen  
(Repayment of above scheduled within one year) (5,300 million yen)

- (2) In order to obtain flexible financing for operating funds, the Company has entered into a commitment line agreement with financial institutions. Financial covenants are attached to the agreement that require net assets in the Company’s consolidated and non-consolidated balance sheet and the cash flows from operating activities in the Company’s consolidated statement of cash flows to be maintained at certain levels.

The unexecuted loan commitment associated with the commitment line agreement as of December 31, 2017 is as follows.

Total loan commitment 67,075 million yen  
Used commitment – million yen  

---

Unexecuted loan commitment 67,075 million yen

## 6. Others

In order for the Company to secure polycrystalline silicon, which is the main raw material of silicon wafers, it entered into long-term purchase contracts with polycrystalline silicon producers. In accordance with the contracts, the Company has made advance payments to some of the producers.

### III. Notes to Non-consolidated Statement of Income

#### 1. Volume of transactions with subsidiaries and affiliates

|  |                    |
|--|--------------------|
| Amount of sales                                  | 54,455 million yen |
| Amount of purchase                               | 55,639 million yen |
| Transactions other than operational transactions | 5,531 million yen  |

### IV. Note to Non-consolidated Statement of Changes in Equity

#### Class and total number of shares of treasury stock

(Shares)

|                      | Number of shares as of the beginning of the business year under review | Increase during the business year under review | Decrease during the business year under review | Number of shares as of the end of business year under review |
|----------------------|--|--|--|--|
| Treasury stock       |  |  |  |  |
| Common shares (Note) | 7,046  | 344  | –  | 7,390  |
| Total                | 7,046  | 344  | –  | 7,390  |

(Note) The 344-share increase in the number of common treasury shares is due to the purchase of shares less than one unit.

## V. Notes Regarding Deferred Tax Accounting

### 1. Details on main causes of deferred tax assets and deferred tax liabilities

#### Deferred tax assets

|                                       |          |             |
|---------------------------------------|----------|-------------|
| Loss carried forward                  | 35,602   | million yen |
| Stocks of subsidiaries and affiliates | 26,111   | million yen |
| Non-current assets                    | 3,397    | million yen |
| Liability for retirement benefits     | 3,197    | million yen |
| Inventories                           | 45       | million yen |
| Other                                 | 1,357    | million yen |
| <hr/>                                 |          |             |
| Subtotal deferred tax assets          | 69,711   | million yen |
| Valuation allowance                   | (69,711) | million yen |
| <hr/>                                 |          |             |
| Total deferred tax assets             | –        | million yen |

#### Deferred tax liabilities

|                                |       |             |
|--------------------------------|-------|-------------|
| Non-current assets             | (117) | million yen |
| <hr/>                          |       |             |
| Total deferred tax liabilities | (117) | million yen |

Net deferred tax liabilities (117) million yen

Deferred tax liabilities for land revaluation reserve (1,342) million yen

### 2. Details of main items causing a difference between the effective statutory tax rate and the actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting

|   |        |   |
|---|--------|---|
| Effective statutory tax rate  | 30.6   | % |
| (Adjustment)  |        |   |
| Valuation allowance   | (14.6) | % |
| Exclusion of dividends received from gross profits  | (5.4)  | % |
| Tax deductions on experimental and research expenses  | (2.5)  | % |
| Other   | 0.4    | % |
| <hr/>   |        |   |
| Actual effective tax rate for corporate income tax, etc. after the application of deferred tax accounting | 8.5    | % |

## VI. Note Regarding Related Party Transactions

### Subsidiaries

| Category   | Company name              | Voting interest (%)    | Relationship with the party         | Transaction contents       | Transaction amount (millions of yen) | Account title   | Balance at end of business year (millions of yen) |
|------------|---------------------------|------------------------|-------------------------------------|----------------------------|--------------------------------------|---|---|
| Subsidiary | SUMCO TECHXIV CORPORATION | 100 (direct ownership) | Manufacturer of products, etc.      | Purchase of products, etc. | 47,914                               | Accounts payable  | 14,911  |
|            |                           |                        |                                     | Receipt of dividends       | 3,624                                | –   | –   |
|            |                           |                        |                                     |                            |                                      | Short-term loans  | 9,283   |
|            |                           |                        |                                     |                            |                                      | Long-term loans receivable from subsidiaries and affiliates (current portion) | 30,065  |
|            |                           |                        |                                     |                            |                                      | Borrowing of funds  | (1,630)   |
|            |                           |                        |                                     |                            | 11,500                               | Short-term borrowings   | 11,500  |
| Subsidiary | SUMCO Phoenix Corporation | 100 (direct ownership) | Sales destination of products, etc. | Selling of products        | 25,008                               | Accounts receivable   | 4,462   |
|            |                           |                        |                                     | Borrowing of funds         | 1,690                                | Short-term borrowings   | 12,995  |

(Notes) 1. Transaction amount excludes consumption taxes.

2. Trade conditions and policy on decision-making of trade conditions

Prices of trades with the subsidiaries above are determined under the same conditions as general trades taking market prices into consideration.

Interest rates for the lending of funds to, and borrowing of funds from SUMCO TECHXIV CORPORATION and for the borrowing of funds from SUMCO Phoenix Corporation are determined rationally by taking market interest rates into consideration.

**VII. 'Per Share' Information**

1. Net assets per share: 693.00 yen
2. Net income per share: 65.29 yen

(Note) The calculation basis of net income per share is as follows.

|  |             |
|--|-------------|
| Net income (millions of yen)   | 19,147      |
| Average number of common shares outstanding during the period (shares) | 293,278,342 |